

ATTACHMENT B

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES INVESTOR PROTECTION
CORPORATION,

Plaintiff-Applicant,

v.

BERNARD L. MADOFF INVESTMENT
SECURITIES LLC,

Defendant.

In re:

BERNARD L. MADOFF,

Debtor.

IRVING H. PICARD, Trustee for the Liquidation of Bernard
L. Madoff Investment Securities LLC,

Plaintiff,

v.

FRANK J. AVELLINO, ET AL,

Defendants.

Adv. Pro. No. 08-01789 (SMB)

SIPA LIQUIDATION

(Substantively Consolidated)

Adv. Pro. No. 10-05421 (SMB)

**EXPERT REPORT OF
MATTHEW B. GREENBLATT, CPA/CFF, CFE
SENIOR MANAGING DIRECTOR
FTI CONSULTING, INC.**

**PRINCIPAL BALANCE CALCULATION
AS APPLIED TO
THE AVELLINO & BIENES DEFENDANTS**

June 5, 2020

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I. INTRODUCTION

1. As described in my Expert Report regarding the Methodology for the Principal Balance Calculation dated November 15, 2012 (the “Principal Balance Calculation Report”), FTI Consulting, Inc. (“FTI”) was retained by Baker & Hostetler LLP, on behalf of the Trustee, to, among other things, reconstruct the books and records of BLMIS. I am a Senior Managing Director at FTI. Additional information regarding my professional experience and recent testimony is included in my Curriculum Vitae annexed hereto as **Exhibit 1**.

2. As part of FTI’s reconstruction of the books and records of BLMIS, chronological listings of all cash and principal transactions for every BLMIS customer account were compiled. These chronological listings provided the foundation to calculate every BLMIS account holder’s principal balance on a daily basis for all dates from April 1, 1981 through December 11, 2008 (the “Principal Balance Calculation”).

3. The Principal Balance Calculation Report explains the methodology of the Principal Balance Calculation and describes the relevant documents and data that were maintained by BLMIS. Accordingly, this report should be read in conjunction with the Principal Balance Calculation Report.¹

4. This report specifically applies the methodology of the Principal Balance Calculation to the BLMIS accounts associated with the defendants² (collectively, the “Defendants”), in the above-captioned litigation and provides a description of the cash and

¹ The opinions that I render in the Principal Balance Calculation Report, the documents that I considered in connection with that Report, and the accompanying Exhibits to that Report, are all incorporated by reference. All capitalized terms not defined herein shall have the meaning ascribed to them in the Principal Balance Calculation Report.

² The Defendants in the above-captioned litigation are: 27 Cliff, LLC; the Avellino Family Foundation, Inc.; Rachel A. Rosenthal; Heather C. Lowles; Melanie A. Lowles; Frank J. Avellino, individually and through trusts; Nancy Carroll Avellino Revocable Trust Under Trust Agreement Dated May 18, 1992; Rachel Anne Rosenthal Trust U/A Dated June 29, 1990; Rachel Anne Rosenthal Trust #3; Heather Carroll Lowles Trust U/A Dated June 29, 1990; Tiffany Joy Lowles Trust U/A Dated June 29, 1990; Melanie Ann Lowles Trust U/A Dated June 29, 1990; Taylor Ashley McEvoy Trust U/A Dated June 24, 1992; Madison Alyssa McEvoy Trust U/A Dated June 29, 1990; S.A. Grantor Retained Annuity Trust; Avellino Family Trust; Avellino & Bienes Pension Plan & Trust; the Estate of Michael S. Bienes; Nancy C. Avellino, individually and through trusts; Dianne K. Bienes; Thomas G. Avellino; Avellino & Bienes; Grosvenor Partners, Ltd.; Mayfair Ventures, G.P.; Aster Associates; St. James Associates; Strattham Partners; Kenn Jordan Associates; Ascent, Inc.; Mayfair Bookkeeping Services, Inc. Defendant Michael S. Bienes, died during the pendency of this action. As a result, the Estate of Michael S. Bienes and Dianne K. Bienes, in her capacity as Personal Representative for the Estate of Michael S. Bienes, were substituted as defendants for Michael S. Bienes on November 16, 2017. *See* Stipulation and Order dated November 16, 2017, Adv. No. 10- 05421 (SMB), ECF No. 170.

principal activity in the BLMIS accounts impacting the Principal Balance Calculation for the BLMIS accounts associated with the Defendants (collectively, the “A&B Accounts”).³

5. This report has been prepared in connection with the above-captioned litigation and is to be used only for the specific purposes of this adversary proceeding. It is not to be used for any other purpose without the express written consent of FTI. If called upon to testify in this matter, I intend to provide testimony regarding my analyses and conclusions consistent with this report. FTI is being compensated at a rate of \$800 per hour for my professional time incurred in performing the work necessary to prepare this report. FTI’s fees are not contingent on the conclusions reached in this report or the outcome of the above-captioned litigation.

6. The documents and data that I considered in connection with this report are listed in **Exhibit 2**. I reserve the right to supplement my report based on any additional documents or information received.

II. APPLICATION OF THE PRINCIPAL BALANCE CALCULATION METHODOLOGY TO THE A&B ACCOUNTS

7. As outlined in the Principal Balance Calculation Report, the principal balance for each BLMIS account is derived by providing credits for the amount of principal deposited into a customer’s BLMIS account and by deducting the amount of principal withdrawn.⁴

8. To determine the amount of principal deposited into the A&B Accounts and the BLMIS accounts impacting the A&B Accounts, I identified any applicable: (i) reported amounts on an account holder’s Customer Statement as of April 1, 1981 for those accounts that were

³ The Defendants maintained the following 18 BLMIS accounts: (i) BLMIS Account 1A0045 (“Account 1A0045”); (ii) BLMIS Account 1A0046 (“Account 1A0046”); (iii) BLMIS Account 1A0047 (“Account 1A0047”); (iv) BLMIS Account 1A0048 (“Account 1A0048”); (v) BLMIS Account 1A0049 (“Account 1A0049”); (vi) BLMIS Account 1A0050 (“Account 1A0050”); (vii) BLMIS Account 1A0051 (“Account 1A0051”); (viii) BLMIS Account 100126 (“Account 100126”); (ix) BLMIS Account 100127 (“Account 100127”); (x) BLMIS Account 1B0018 (“Account 1B0018”); (xi) BLMIS Account 1A0053 (“Account 1A0053”); (xii) BLMIS Account 1ZB032 (“Account 1ZB032”); (xiii) BLMIS Account 1ZB046 (“Account 1ZB046”); (xiv) BLMIS Account 1ZB262 (“Account 1ZB262”); (xv) BLMIS Account 1ZA879 (“Account 1ZA879”); (xvi) BLMIS Account 1ZB509 (“Account 1ZB509”); (xvii) BLMIS Account 1ZB510 (“Account 1ZB510”); and (xviii) BLMIS Account 1ZB249 (“Account 1ZB249”).

⁴ Only the steps relevant to calculating the principal balance for the A&B Accounts are discussed in this report. The remaining steps applicable to other BLMIS accounts outside of the scope of this report are fully addressed in the Principal Balance Calculation Report.

opened prior to April 1, 1981;⁵ (ii) cash deposits; and (iii) inter-account transfers of principal into one BLMIS customer account from another BLMIS customer account.

9. To determine the amount of principal withdrawn from the A&B Accounts and the BLMIS accounts impacting the A&B Accounts, I identified any applicable: (i) cash withdrawals and (ii) inter-account transfers of principal out of one BLMIS customer account into another BLMIS customer account.

A. Application of Principal Balance Calculation Methodology to Determine the Amount of Principal Deposited into the A&B Accounts

Principal Credit and Cash Deposits

10. As described in detail in the Principal Balance Calculation Report, the first step of the Principal Balance Calculation is to ascertain the initial investment made by each customer. This initial investment is most often a cash deposit or an inter-account transfer. However, the Principal Balance Calculation for BLMIS accounts opened prior to April 1, 1981, provides a credit for principal equal to both the account's reported ending cash balance and the historical cost of the securities reported as held in the account as of March 31, 1981 on the Customer Statements.

11. The next step of the Principal Balance Calculation is to identify the cash deposits that were made by each account holder in the form of checks or wire transfers, and which were recorded on Customer Statements and/or other Core Account Documents maintained by BLMIS.⁶

Inter-Account Transfers Into a BLMIS Account

12. As described in the Principal Balance Calculation Report, the amount of the funds transferred from one BLMIS account to another BLMIS account (an inter-account transfer⁷) is limited to the amount of principal available in the *transferor's* account at the time of the transfer.

⁵ Accounts that were opened at BLMIS before April 1, 1981 were granted initial principal credit equal to the cash balance reported plus the cost basis of positions reported as held on March 31, 1981 on the Customer Statements. See Principal Balance Calculation Report, ¶¶20-22.

⁶ See Principal Balance Calculation Report, Section V.

⁷ An inter-account transfer is defined as a non-cash transaction between BLMIS customer accounts in which no new funds entered or left BLMIS, but rather a book entry occurred at BLMIS to internally adjust the balances of those accounts. These book entries did not reflect any transfers of cash because there was no actual movement of cash. Rather, these inter-account transfers merely changed reported value in the purported "equity" maintained in the BLMIS customers' accounts. (See Principal Balance Calculation Report, ¶¶17, 27-28, 32-34.)

Only the portion of the inter-account transfers between BLMIS accounts for which the transferor had actual principal could be transferred. As such, all inter-account transfers have been analyzed and the transferee's account has been credited only up to the amount of principal available in the transferor's account on the day of the inter-account transfer.

B. Application of Principal Balance Calculation Methodology to Determine the Amount of Principal Withdrawn out of the A&B Accounts

Cash Withdrawals

13. Another step of the Principal Balance Calculation is to identify the cash withdrawals, in the form of checks or wire transfers, where BLMIS made payments to account holders and those amounts were also shown on the Customer Statements and/or other Core Account Documents maintained by BLMIS.⁸

Inter-Account Transfers Out of a BLMIS Account

14. Consistent with the inter-account transfers of principal into one BLMIS customer account, for the inter-account transfers out to another BLMIS account, the amount that affects the Principal Balance Calculation is limited to the amount of principal available in the transferor's account at the time of the transfer. When performing the Principal Balance Calculation, the order in which the transactions are processed matters for those transactions occurring on the same day. In these instances, cash withdrawals are calculated first, followed by cash additions and then inter-account transfers. This order allows the account holders to withdraw any remaining principal in the form of a cash redemption prior to the internal transfer to another BLMIS customer account.

C. Description of the Core Account Documents Used to Perform the Principal Balance Calculation

15. As described in detail in the Principal Balance Calculation Report, the Core Account Documents⁹ are used to perform the Principal Balance Calculation for every BLMIS customer account, including the A&B Accounts. For purposes of preparing the chronological

⁸ See Principal Balance Calculation Report, Section V.

⁹ Only the Core Account Documents used in calculating the principal balance for the A&B Accounts are discussed in this report. The additional Core Account Documents are fully addressed in Section V of the Principal Balance Calculation Report.

listings of all cash and principal transactions for the A&B Accounts, FTI relied on the following Core Account Documents, in order of priority: (i) Customer Statements; (ii) Portfolio Management Reports (“PMRs”); (iii) Portfolio Management Transaction Reports (“PMT Reports”); and (iv) Spiral Notebooks.

16. In this case, I am aware that there was an investigation of Avellino & Bienes (“A&B”) performed by the Securities and Exchange Commission (the “SEC Investigation”) in June 1992.¹⁰ I understand that for the A&B Accounts that were opened with BLMIS prior to January 1, 1993, alternate versions of BLMIS customer statements were created by BLMIS with transactions dating back approximately three years from the time of the SEC Investigation.¹¹

17. Based on my forensic examination of the BLMIS books and records, these subsequently created, alternate versions are not reliable records for determining the cash and principal activity in these accounts. Therefore, consistent with the methodology for the Principal Balance Calculation, I rely on the Customer Statements obtained from microfilm, during the time period from November 1978 through November 1995, in order to determine cash and principal transactions in these accounts.¹²

Customer Statements

18. The Customer Statements represent the primary document type within the BLMIS records for the preparation of the chronological listings of the cash and principal transactions used to perform the Principal Balance Calculation. There are two different comprehensive sources of Customer Statements: (i) electronically stored Customer Statements maintained at BLMIS on a storage device, referred to as StorQM, from December 1995 through November 2008; and (ii) images of Customer Statements on reels of microfilm from November 1978 through November 1995, with some gaps. The highest priority is accorded to the monthly Customer Statements because: (i) the cash and principal transactions made by BLMIS’s

¹⁰ See **SECSFA0003573-SECSFA0003587** for *SEC v. Avellino & Bienes, Frank J. Avellino, and Michael S. Bienes*, Complaint for Preliminary and Permanent Injunctive and Other Equitable Relief, *see also* Expert Report of Bruce G. Dubinsky MST, CPA, CFE, CVA, CFF, CAMS, MAFF dated January 16, 2019 (the “Dubinsky Report”), Sec. VI (A)(1)(b).

¹¹ See Dubinsky Report, Sec. VI (A)(1)(b); *see also* 10-CR-228_USVBON0004519 -- 10-CR-228_USVBON0004544, *United States of America v. Daniel Bonventre, Jerome O’Hara, George Perez, Annette Bongiorno, Joann Crupi*, 10 Cr. 228 (LTS) (S.D.N.Y. Dec. 2, 2013).

¹² See Principal Balance Calculation Report, ¶¶40-43; *see also* Dubinsky Report, Sec. VI (A)(1)(b).

customers reflected on the Customer Statements, have been reconciled to third-party bank records where available¹³; (ii) they provide the most comprehensive source of account history as they contain line item-by-line item cash and principal transactions; and (iii) they were printed and provided to customers.¹⁴ Therefore, the cash and principal transactions reported on the Customer Statements from the StorQM and microfilm are fairly and accurately represented.¹⁵

PMRs

19. The PMRs are a type of internal report generated by BLMIS on a monthly basis, which provide calendar year-to-date information on a summary level and have been used as a source of reconciliation for the Customer Statements. In certain instances where a Customer Statement was not available, the applicable PMR was used to supplement the missing cash transactions. In these instances, the PMR data was added to the chronological listings of cash and principal transactions used to perform the Principal Balance Calculation.¹⁶

PMT Reports

20. The PMT Reports are another type of internal report maintained by BLMIS that provide transaction-level detail related to each customer account on a monthly basis. The additional benefit these reports offer that the PMRs do not provide is that the PMT Reports show dates on which specific transactions occurred within a particular month. The PMT Reports were used in conjunction with the PMRs as a reconciling source to Customer Statement transactions. In addition, similar to the PMRs, the PMT Reports were utilized to supplement the chronological listings of cash and principal transactions used to perform the Principal Balance Calculation in the absence of a particular Customer Statement.¹⁷

¹³ See the Expert Report of Lisa M. Collura relating to Reconciliation of Cash Transactions for All BLMIS Customers and Analysis of IA Business Cash Activity dated January 16, 2019 (the “Collura Report”).

¹⁴ See Principal Balance Calculation Report, ¶¶ 40–43.

¹⁵ See Principal Balance Calculation Report, ¶12; see also Principal Balance Calculation Report, Sections V and VI.)

¹⁶ See Principal Balance Calculation Report, ¶¶ 44–47.

¹⁷ See Principal Balance Calculation Report, ¶¶ 48–49.

Spiral Notebooks

21. The Spiral Notebooks are handwritten stenographic (spiral-bound) notebooks in BLMIS's records. These notebooks, which were arranged as "Check In" and "Check Out" notebooks, contain transaction information related almost exclusively to check receipts and check disbursements. Each line item and/or group of transactions identified in these notebooks corresponds with a customer account number and/or a customer name. In limited situations in which Customer Statements, PMRs and PMT Reports were not available from the microfilm records, the cash deposit and cash withdrawal line items from these notebooks were used in the Principal Balance Calculation.¹⁸

III. OVERVIEW OF THE A&B ACCOUNTS

22. The Defendants maintained 18 different accounts with BLMIS's investment advisory business over the course of their relationship with BLMIS. The Defendants held 11 of these accounts with BLMIS prior to January 1, 1993 (the "Pre-1993 A&B Accounts")¹⁹, and opened seven additional accounts after January 1, 1993 (the "Entity Accounts").

A. The Pre-1993 A&B Accounts

23. The Pre-1993 A&B Accounts consisted of seven accounts related specifically to the A&B partnership and four additional accounts as follows:

Pre-1993 A&B Accounts - Partnership

- Account 1A0045 held by Avellino & Bienes c/o Frank Avellino;
- Account 1A0048 held by Avellino & Bienes #2 c/o Frank Avellino;²⁰

¹⁸ See Principal Balance Calculation Report, ¶¶50-51.

¹⁹ See SECSFA0003573-SECSFA0003587 for SEC v. Avellino & Bienes, Frank J. Avellino, and Michael S. Bienes, Complaint for Preliminary and Permanent Injunctive and Other Equitable Relief; see also SECSFA0004691-SECSFA0004716 for SEC v. Avellino & Bienes, Frank J. Avellino, and Michael S. Bienes, Final Judgment of Permanent Injunction and Other Equitable Relief By Consent Against Avellino & Bienes, Frank J. Avellino, and Michael S. Bienes.

²⁰ The name on Account 1A0048 changed over the years it was maintained with BLMIS. Prior to March 1988, the account was under the name "F & M ASSOCIATES." From March 1988, the account was under the name "AVELLINO & BIENES #2." (See AMF00309452-AMF00309453, MF00540177, and MF00537414.)

- Account 1A0050 held by Avellino & Bienes #4 c/o Frank Avellino;²¹
- Account 1A0049 held by Avellino & Bienes #3 c/o Frank Avellino;²²
- Account 1A0046 held by Avellino & Bienes Pension Plan & Trust c/o Frank Avellino;²³
- Account 1A0047 held by Avellino & Bienes Special c/o Frank Avellino;
and
- Account 1A0053 held by Avellino & Bienes #5 c/o Frank Avellino.

Additional Pre-1993 A&B Accounts

- Account 100127 held by Avellino Group c/o Frank Avellino;²⁴
- Account 1B0018 held by Diane K Bienes (the “Account 1B0018”);²⁵
- Account 100126 held by Avellino Family Trust c/o Frank Avellino;²⁶ and

²¹ The name on Account 1A0050 changed over the years it was maintained with BLMIS. Prior to March 1988, the account was under the name “F & M ASSOCIATES SPECIAL #2.” From March 1988, the account was under the name “AVELLINO & BIENES #4.” (See **AMF00309486-AMF00309487**, **AMF00309491**, **MF00540179** and **MF00537416**.)

²² The name on Account 1A0049 changed over the years it was maintained with BLMIS. Prior to March 1988, the account was under the name “F & M ASSOCIATES SPECIAL.” From March 1988, the account was under the name “AVELLINO & BIENES #3.” (See **AMF00309469-AMF00309470**, **AMF00309474**, **MF00540178**, and **MF00537415**.)

²³ The name on Account 1A0046 changed over the years it was maintained with BLMIS. Prior to April 1988, the account was under the name of “AVELLINO & BIENES PENSION PLAN & TRUST.” From April 1988 through November 1992, the account was under the name “AVELLINO & BIENES.” From December 1992, the account was under the name “AVELLINO & BIENES PENSION PLAN & TRUST.” (See **AMF00309439-AMF00309442**, **AMF00309449**, **MF00537235**, **MF00538510**, **MF00450048**, and **MF00443731**.)

²⁴ The name on Account 100127 changed over the years it was maintained with BLMIS. Prior to November 1979, the account was under the name of “FRANK AVELLINO.” From November 1979 through June 1983, the account was under the name “AVELLINO GROUP.” From July 1983 through August 1983, the account was under the name “AVELLINO GROUP G ACCT.” From September 1983, the account was under the name “AVELLINO GROUP.” (See **MF00085715**, **MF00086089**, **MF00367807**, **MF00368398**, **MF00368938**, and **MF00369508**.)

²⁵ The name on Account 1B0018 changed over the years it was maintained with BLMIS. Prior to July 1983, the account was under the name of “DIANE K BIENES.” From July 1983 through August 1983, the account was under the name “DIANE K BIENES G ACCT.” From September 1983, the account was under the name “DIANE K BEINES.” (See **MF00367832**, **MF00368410**, **MF00368950**, and **MF00369521**.)

²⁶ The name on Account 100126 changed over the years it was maintained with BLMIS. Prior to July 1983, the account was under the name of “AVELLINO FAMILY TRUST.” From July 1983 through August 1983, the account was under the name “AVELLINO FAMILY TRUST G ACCT.” From September 1983, the account was under the name “AVELLINO FAMILY TRUST.” (See **MF00367816**, **MF00368397**, **MF00368937**, and **MF00369506-MF00369507**.)

- Account 1A0051 held by Frank J Avellino Trustee.²⁷

B. The Entity Accounts

24. The Defendants maintained the following seven Entity Accounts:

- Account 1ZA879 held by Kenn Jordan Associates c/o Frank Avellino;²⁸
- Account 1ZB032 held by Mayfair Ventures c/o Frank Avellino;
- Account 1ZB046 held by Grosvenor Partners Limited c/o Frank Avellino;
- Account 1ZB249 held by Mayfair Bookkeeping Service Inc. Mayfair Pension Plan c/o Frank Avellino;²⁹
- Account 1ZB262 held by Strattham c/o Thomas G Avellino;
- Account 1ZB509 held by Aster Associates Frank Avellino, Nancy Carroll Avellino General Partners; and
- Account 1ZB510 held by St James Associates Michael Bienes, Diane Bienes General Partners.

IV. SUMMARY OF ACTIVITY IN THE PRE-1993 A&B ACCOUNTS

25. The Principal Balance Calculation shows that, collectively, A&B withdrew fictitious profits totaling \$485,354,085 from the Pre-1993 A&B Accounts between the later of April 1, 1981 or the date the account was opened with BLMIS, and until the closing of the account. In other words, the Pre-1993 A&B Accounts withdrew \$485,354,085 more than they

²⁷ The name on Account 1A0051 changed over the years it was maintained with BLMIS. Prior to July 1983, the account was under the name of "BARBARA TULLER." From July 1983 through August 1983, the account was under the name "BARBARA TULLER G ACCT." From September 1983 through April 1985, the account was under the name "BARBARA TULLER." From May 1985 through May 1989, the account was under the name "BARBARA TULLER AVELLINO." From June 1989, the account was under the name "FRANK J AVELLINO TRUSTEE." (See MF00368240, MF00368808, MF00369371, MF00369953, MF00372923, MF00373540-MF00045441, and MF00045954.)

²⁸ The name on Account 1ZA879 changed over the years it was maintained with BLMIS. Prior to, the account was under the name "KENNETH JORDAN NO 3." From April 1998, the account was under the name "KENN JORDAN ASSOCIATES." (See AMF00022537, AMF00022564, and MDPTPP06580550-MDPTPP06580561.)

²⁹ The name on Account 1ZB249 changed over the years it was maintained with BLMIS. Prior to February 2000, the account was under the name "MAYFAIR PENSION PLAN." From February 2000, the account was under the name "MAYFAIR BOOKKEEPING SERV INC." (See AMF00055011, AMF00055016, and MDPTPP06831549-MDPTPP06831564.)

deposited and/or received in principal in the period leading up to the SEC Investigation. The total amount of fictitious profits in each of the 11 Pre-1993 A&B Accounts is detailed below.

A. Pre-1993 A&B Accounts – Partnership

Account 1A0045

26. Account 1A0045 was opened with BLMIS prior to April 1981. The Principal Balance calculation for Account 1A0045 demonstrates that between April 1, 1981, and the closing of the account, A&B withdrew \$71,207,129 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4I**. As explained more fully in **Exhibits 4A-4F, 4I-4J, and 7A-7D**, A&B deposited and/or received \$131,485,139 of total principal but withdrew and/or transferred into other BLMIS accounts \$202,692,268.

Account 1A0047

27. Account 1A0047 was opened with BLMIS in December 1986. The Principal Balance calculation for Account 1A0047 demonstrates that between December 1986, and the closing of the account, A&B withdrew \$33,264,438 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4J**. As explained more fully in **Exhibits 4A-4G and 4I-4J**, A&B deposited and/or received \$13,966,585 of total principal but withdrew and/or transferred into other BLMIS accounts \$47,231,022.³⁰

Account 1A0048

28. Account 1A0048 was opened with BLMIS prior to April 1981. The Principal Balance calculation for Account 1A0048 demonstrates that between April 1, 1981, and the closing of the account, A&B withdrew \$27,001,128 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4K**. As explained more fully in **Exhibits 4G-4H, and 4K**, A&B deposited and/or received \$55,173,617 of total principal but withdrew and/or transferred into other BLMIS accounts \$82,174,745.³¹

³⁰ Difference due to rounding.

³¹ Difference due to rounding.

Account 1A0050

29. Account 1A0050 was opened with BLMIS prior to April 1981. The Principal Balance calculation for Account 1A0050 demonstrates that between April 1, 1981, and the closing of the account, A&B withdrew \$65,453,497 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4O**. As explained more fully in **Exhibits 4A-4M, 4O-4Q, and 7A-7D**, A&B deposited and/or received \$29,186,217 of total principal but withdrew and/or transferred into other BLMIS accounts \$94,639,714.

Account 1A0049

30. Account 1A0049 was opened with BLMIS prior to April 1981. The Principal Balance calculation for Account 1A0049 demonstrates that between April 1, 1981, and the closing of the account, A&B withdrew \$36,722,050 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4P**. As explained more fully in **Exhibit 4P**, A&B deposited and/or received \$10,512,643 of total principal but withdrew and/or transferred into other BLMIS accounts \$47,234,693.

Account 1A0046

31. Account 1A0046 was opened with BLMIS in April 1985. The Principal Balance calculation for Account 1A0046 demonstrates that between April 1985, and the closing of the account, A&B withdrew \$2,816,585 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 5**. As explained more fully in **Exhibit 5**, A&B deposited \$4,350,138 of total principal but withdrew \$7,166,723.

B. The Additional Pre-1993 A&B Accounts

Account 100127

32. Account 100127 was opened with BLMIS prior to April 1981. The Principal Balance calculation for Account 100127 demonstrates that between April 1, 1981, and the closing of the account, A&B withdrew \$17,789 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4L**. As explained

more fully in **Exhibit 4L**, A&B deposited and/or received \$832,211 of total principal but withdrew and/or transferred into other BLMIS accounts \$850,000.

Account 100126

33. Account 100126 was opened with BLMIS in July 1982. The Principal Balance calculation for Account 100126 demonstrates that between July 1982, and the closing of the account, A&B withdrew \$350,000 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4M**. As explained more fully in **Exhibits 4L** and **4M**, A&B received \$400,000 of principal but withdrew \$750,000.

Account 1A0051

34. Account 1A0051 was opened with BLMIS in November 1982. The Principal Balance calculation for Account 1A0051 demonstrates that between November 1982, and the closing of the account, A&B withdrew \$5,002,549 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 4N**. As explained more fully in **Exhibits 4L** and **4N**, A&B deposited \$2,950,000 of total principal but withdrew \$7,952,549.

Account 1B0018

35. Account 1B0018 was opened with BLMIS prior to April 1981. The Principal Balance calculation for Account 1B0018 demonstrates that between April 1, 1981, and the closing of the account, A&B withdrew \$29,874,996 in fictitious profits. A detailed listing of the cash and principal transactions appearing in that account are reflected in **Exhibit 6**. As explained more fully in **Exhibit 6**, A&B received \$1,245,966 of principal but withdrew \$31,120,962.

C. Summary of the Activity in Account 1A0053 and the Core Account Documents Used to Perform the Principal Balance Calculation

36. As described more fully in my Principal Balance Calculation Report, for the time period between November 1978 and November 1995, I used Customer Statements found on

microfilm reels as the primary source for the Principal Balance Calculation.³² I followed that same methodology to perform the Principal Balance Calculation for Account 1A0053.

i) The Core Account Documents Used to Perform the Principal Balance Calculation for Account 1A0053

37. Based on my forensic review of the Core Account Documents, including the Customer Statements, Account 1A0053 appears to have been opened with BLMIS on or after June 23, 1992.

38. The first microfilm Customer Statement for Account 1A0053 was dated June 30, 1992.³³ No cash balance was reflected at the beginning or end of the June 1992 Customer Statement, nor were any securities reflected as held as of June 30, 1992.³⁴ Based on my review of all the Customer Statements obtained from the microfilm maintained by BLMIS, Account 1A0053 was never funded with an initial cash deposit, nor any cash deposits at any point in time during the life of the account. In fact, the earliest cash and principal transactions for Account 1A0053 took place on August 18, 1992.³⁵

39. Additionally, the “Name and Address File Maintenance” form in the customer file for Account 1A0053 included the following handwritten notation stating “Done 6-23-92”:³⁶

³² See Principal Balance Calculation Report, Section V.A.

³³ See **MF00462492**. Account 1A0053 was referred to as Account 100156 on this Customer Statement.

³⁴ The July 1992 Customer Statement was the earliest dated microfilm Customer Statement for Account 1A0053 containing non-cancelled purported trading activity. See **MF00458597-MF00458598**. Notwithstanding that the June 1992 microfilm Customer Statement for Account 1A0053 reflects no cash or securities held as of June 30, 1992, the July 1992 microfilm Customer Statement for Account 1A0053 reflects a debit balance at the beginning of the month as well as securities purportedly held.

³⁵ See **Exhibit 4Q** for the Detailed Schedule for the Principal Balance Calculation for Account 1A0053.

³⁶ See **AMF00309517**. In addition, several other factors indicate Account 1A0053 opened on or after June 23, 1993: (i) the account number listed in this account opening document was “1A0053” and the BLMIS account numbers were converted from numeric to alpha-numeric in or after May 1992, indicating that the account was created in or after May of 1992; (ii) BLMIS account numbers were generally created in numerical sequence and Account 1A0053 falls between Account 1A0052, which was opened in May 1992 and Account 1A0054, which was opened in September 1992; and (iii) the June 30, 1992 microfilm records do not include a PMR for Account 1A0053, see **MF00011554**, but the July 31, 1992 microfilm records do include a PMR for Account 1A0053, see **MF00010957**.

NAME & ADDRESS FILE MAINTENANCE

Action (1) A (Note: A=Add C=Change D=Delete)

Account Number (6) 1A0053

Type (1) 1 (Note: 1=Name & Address 2=Duplicate # 3=Mailing)

P S A H N

Line 1 (30) Smallman Buena #5

Line 2 (30) C/O Frank Smallman

Line 3 (30) Redacted

Line 4 (30) Redacted

City (20) Redacted

Note: Type 1 information only

Short Name (12) A-B SS-ID# (11) Redacted 1935

Foreign Acct Margin Acct Y 1087

Group Name (10) A-B

Comps Y Memos Y Statements Y (Note: N= Do Not Print)

	Profits	Dividends	Interest	(Note: S=Send R=Reinvest)
Type 1	-	-	-	
2	-	-	-	
3	-	R	-	
4	-	-	-	
5	-	-	-	
6	-	-	-	
7	-	-	-	
8	-	-	-	
9	-	-	-	

FOREIGN Y
MARGIN Y
1087 H

AMF00309517

DOWE
6-23-92
(151)

DOWE
6-23-92
(151)

40. The BLMIS books and records contained several statements for Account 1A0053 dating back to November 1989, including handwritten Customer Statements, as well as several versions of the June 1992 statements.³⁷ Based on my forensic review, these statements were not part of the microfilm reels found at BLMIS.

³⁷ See e.g. MADTBB02397292, MADTBB02397300, MADTBB02397304, MADTBB02391086, and MADTBB02390998-MADTBB02391006, MADTBB02391007-MADTBB02391017, MADTBB02391019-MADTBB02391030, MADTBB02391076-MADTBB02391078, MADTBB02401002, MADTBB03345474-MADTBB03345475, MADTBB03346469, MADTSS00015852, MADTSS00015858-MADTSS00015861, MADTSS00015940-MADTSS00015944, MADTSS00015946-MADTSS00015947, MADTSS00015951-MADTSS00015954, MADTSS00168659, MADTSS00167358, MADTSS00196935, and MADTSS00168238. In addition, based on my review of the documents produced to the Trustee by the SEC, it appears the SEC only received printed versions of customer statements for Account 1A0053 dated December 31, 1989, December 31, 1991, January 31, 1992, February 29, 1992, March 31, 1992, April 30, 1992, and May 31, 1992. See SECSKD0000035, SECSKD0000045-SECSKD0000046, SECSKD0000072-SECSKD0000073, SECSKD0000139-SECSKD0000149, SECSKD0000876, and SECSKD0010189.

41. Consistent with the Principal Balance Calculation methodology, I rely on the microfilm Customer Statements in order to determine cash and principal transactions for Account 1A0053. I have not used the additional printed statements produced to the Trustee by the SEC, nor any other alternative statements, to prepare the chronological listings of the cash and principal transactions to perform the Principal Balance Calculation for Account 1A0053.

ii) Description of the Inter-Account Transfers into Account 1A0053

42. On August 18, 1992, as reflected on the microfilm Customer Statements, there were two inter-account transfers from Account 1A0045 into Account 1A0053 in the aggregate amount of \$56,655,933. However, due to the negative principal balance in Account 1A0045 at the time of these inter-account transfers, there was no principal available to be transferred into Account 1A0053. Therefore, the amounts of \$5,499,011 and \$51,156,922 were not credited as principal into Account 1A0053 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 4I and 4Q.**)

43. On August 18, 1992, as reflected on the microfilm Customer Statements, there were four additional inter-account transfers from Accounts 1A0048, 1A0049, 1A0050, and 1A0047 into Account 1A0053 in the aggregate amount of \$120,939,098:

- \$49,737,555 from Account 1A0048;
- \$32,802,580 from Account 1A0049;
- \$18,281,067 from Account 1A0050; and
- \$20,117,896 from Account 1A0047.

44. Because Accounts 1A0048, 1A0049, 1A0050 and 1A0047 had only a total of \$42,267,558 of principal available at the time of the August 18, 1992 inter-account transfers, Account 1A0053 was credited with a total of \$42,267,558 of principal:

- \$14,074,309 from Account 1A0048;
- \$7,400,143 from Account 1A0049;
- \$16,196,967 from Account 1A0050; and
- \$4,596,139 from Account 1A0047.

45. The remaining balance of these reported inter-account transfers constituted fictitious profits. (See **Exhibits 4J-4K and 4O-4Q.**)

46. In sum, the six inter-account transfers provided Account 1A0053 with a total of \$42,267,558 of principal.

iii) Description of the Cash Withdrawals and Inter-Account Transfers Out of Account 1A0053

47. On October 6, 1992, as reflected on the microfilm Customer Statements, there was an inter-account transfer from Account 1A0053 into Account 1A0050 in the amount of \$6,880,000. As of the date of this inter-account transfer, Account 1A0053 had sufficient principal to transfer the full amount into Account 1A0050. Therefore, \$6,880,000 was credited as principal into Account 1A0050. (See **Exhibits 4O** and **4Q**.)

48. Between August 18, 1992, and the closing of the account, Account 1A0053 reflected a total of four cash withdrawals totaling \$249,031,484.

49. The Principal Balance Calculation for Account 1A0053 demonstrates that between August 18, 1992, and the closing of the account, \$255,911,484 was withdrawn from or transferred within BLMIS (\$249,031,484 withdrawn in cash and \$6,880,000 transferred into Account 1A0050), which consisted of \$42,267,558 of principal (\$0 deposited in cash and \$42,267,558 transferred into Account 1A0053) and an additional \$213,643,925 of funds withdrawn in excess of principal, representing fictitious profits.³⁸ (See **Exhibit Q**.)

D. Summary of the Fictitious Profits for the Pre-1993 A&B Accounts

50. A&B withdrew a total of \$485,354,085 in fictitious profits. As demonstrated in the chart below³⁹ and explained more fully in **Exhibits 4I-4Q, 5** and **6**, A&B deposited and/or received \$292,370,075 of total principal, but withdrew and/or transferred into other BLMIS accounts \$777,724,160.

³⁸ Difference due to rounding.

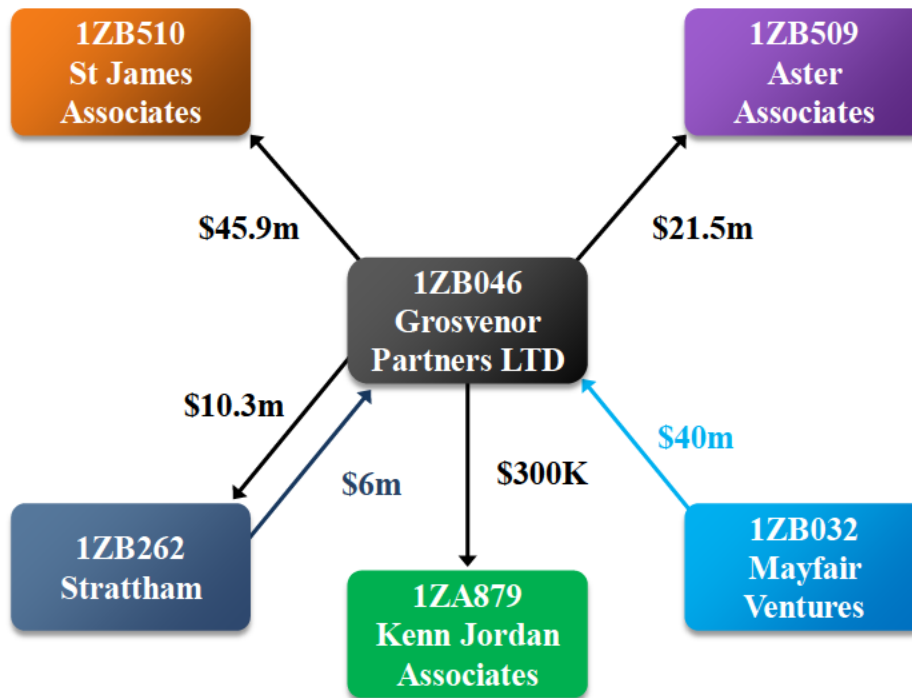
³⁹ Differences due to rounding.

		INFLOWS				OUTFLOWS		Ending Principal Balance
BLMIS Account	Account Name	Principal Credit	Cash Deposits	Transfers of Principal In	Total Principal Available	Cash Withdrawals	Transfers of Principal Out	
1A0045	AVELLINO & BIENES	\$14,164,773	\$117,204,366	\$116,000	\$131,485,139	(\$194,475,951)	(\$8,216,317)	(\$71,207,129)
1A0047	AVELLINO & BIENES SPECIAL	-	1,220,000	12,746,585	13,966,585	(41,538,788)	(5,692,235)	(\$33,264,438)
1A0048	AVELLINO & BIENES #2	4,595,555	50,510,000	68,062	55,173,617	(68,100,435)	(14,074,309)	(\$27,001,128)
100127	AVELLINO GROUP	699,951	132,261	-	832,211	(450,000)	(400,000)	(\$17,789)
100126	AVELLINO FAMILY TRUST	-	-	400,000	400,000	(750,000)	-	(\$350,000)
1A0051	FRANK J AVELLINO TRUSTEE	-	2,950,000	-	2,950,000	(7,952,549)	-	(\$5,002,549)
1A0050	AVELLINO & BIENES #4	1,820,217	20,486,000	6,880,000	29,186,217	(78,442,747)	(16,196,967)	(\$65,453,497)
1A0049	AVELLINO & BIENES #3	2,459,643	8,053,000	-	10,512,643	(39,834,550)	(7,400,143)	(\$36,722,050)
1A0053	AVELLINO & BIENES #5	-	-	42,267,558	42,267,558	(249,031,484)	(6,880,000)	(\$213,643,926)
1A0046	AVELLINO & BIENES PENSION PLAN & TRUST	-	4,350,138	-	4,350,138	(7,166,723)	-	(\$2,816,585)
1B0018	DIANE K BIENES	1,245,966	-	-	1,245,966	(31,120,962)	-	(\$29,874,996)
TOTAL		\$ 24,986,105	\$204,905,765	\$ 62,478,205	\$292,370,075	(\$718,864,188)	(\$58,859,972)	(\$485,354,085)

V. SUMMARY OF ACTIVITY IN THE ENTITY ACCOUNTS

51. After the SEC Investigation in 1992, A&B maintained seven Entity Accounts with BLMIS. These Entity Accounts were opened between 1993 and 2004. The Principal Balance Calculation shows that, collectively, the Defendants withdrew fictitious profits totaling \$87,051,400 over the life of the Entity Accounts.

52. There were also inter-account transfers between and among six of the seven Entity Accounts, summarized in the following chart.



53. As discussed in detail below in Sections A-F, the inter-account transfers into and out of Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZA509 and 1ZA510 were reflected on the Customer Statements. These amounts do not represent actual principal transferred. (See Exhibits 7H-7M.)

A. Description of Activity in Account 1ZB032 and the Transactions Impacting the Principal Balance Calculation

54. Account 1ZB032 was opened with BLMIS in February 1993. Throughout its account history, Account 1ZB032 had a total of 31 cash deposit and withdrawal transactions. In

addition to these cash transactions, there were six inter-account transfers from Account 1ZB032 into Account 1ZB046.

55. The cash deposit and withdrawal transactions, as well as the inter-account transfers, all impacted the Principal Balance Calculation for Account 1ZB032. Each of these transactions was reflected on the Customer Statements between February 1993 and November 2008.

56. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Account 1ZB032.

57. **Exhibit 7H** to this report provides the detailed schedule for the Principal Balance Calculation for Account 1ZB032.

i) Description of the Cash Deposits Into Account 1ZB032

58. On February 11, 1993, Account 1ZB032 was opened with a cash deposit via wire in the amount of \$26,000,000, all representing principal.

59. Subsequent to this initial cash deposit, on March 28, 1995, there was an additional cash deposit via check into Account 1ZB032 in the amount of \$2,000,000, all representing principal.

60. In sum, the two cash deposits provided Account 1ZB032 with a total of \$28,000,000 of principal. (See **Exhibit 3A**.)

ii) Description of the Cash Withdrawals and Inter-Account Transfers Out of Account 1ZB032

61. Between February 11, 1993 and December 11, 2008, Account 1ZB032 reflected a total of 29 cash withdrawals⁴⁰ totaling \$27,850,000.⁴¹

62. On July 3, 1995, as reflected on the Customer Statements, there was an inter-account transfer from Account 1ZB032 into Account 1ZB046 in the amount of \$18,000,000. However, because Account 1ZB032 had only \$4,500,000 of principal available at the time of this inter-account transfer, Account 1ZB046 was credited with \$4,500,000 of principal.⁴² The remaining balance of this reported inter-account transfer constituted fictitious profits. (See **Exhibit 7H**; see also **Exhibit 7I** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB046.)

63. Between April 1, 2002 and March 1, 2005, as reflected on the Customer Statements, there were five additional inter-account transfers from Account 1ZB032 into Account 1ZB046 in the aggregate amount of \$22,003,827. However, as demonstrated in the chart below, due to the negative principal balance in Account 1ZB032 at the time of these inter-account transfers, there was no principal available to be transferred into Account 1ZB046. Therefore, these amounts were not credited as principal into Account 1ZB046 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7H** and **7I**.)

⁴⁰ These cash withdrawals exclude the line items on the Customer Statements related to a check for \$800,000 issued by BLMIS on February 1, 1995, which was stopped on February 14, 1995. (See **Exhibit 7H** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB032.)

⁴¹ I reviewed the PMT Report related to Account 1ZB032 for the period from January 1, 1995 through December 31, 1995 because only a partial BLMIS Customer Statement was available to identify cash and principal transactions for Account 1ZB032 for the month of June 1995. The BLMIS Customer Statements for all other months in 1995 were available within the BLMIS records. Based on my review, I determined that a cash withdrawal in the amount of \$800,000 took place on June 1, 1995. See **MF00549413** and **MF00203033-MF00203034**; see also **MDPTQQ00790803** for the PMR related to Account 1ZB032 for the period from January 1, 1995 through December 31, 1995; and the Principal Balance Calculation Report, ¶¶44-47 and ¶¶48-49 for a full explanation of the PMR and PMT Reports, respectively.

⁴² On the same day as the inter-account transfer into Account 1ZB046 (July 3, 1995), Account 1ZB032 had one withdrawal of cash in the amount of \$800,000. To determine the amount of principal available in Account 1ZB032 at the time of this inter-account transfer, the following methodology was applied: cash withdrawals were processed first, cash additions processed next, and then inter-account transfers were processed. (See Principal Balance Calculation Report, ¶34.) Applying that methodology here, the cash withdrawal of \$800,000 was deducted first from Account 1ZB032 reducing the principal balance from \$5,300,000 to \$4,500,000.

Date	BLMIS Transferee Account	Transfer Amount Reported on Customer Statements	Transferor's Principal Balance at Time of the Transfer	Principal Transferred	Fictitious Profits	Exhibits
4/1/2002	1ZB046	\$ (3,000,000)	\$ (1,800,000)	\$ -	\$ (3,000,000)	7H; 7I
8/14/2002	1ZB046	(4,000,000)	(1,800,000)	-	(4,000,000)	7H; 7I
9/3/2002	1ZB046	(4,000,000)	(1,800,000)	-	(4,000,000)	7H; 7I
5/26/2004	1ZB046	(10,000,000)	(1,800,000)	-	(10,000,000)	7H; 7I
3/1/2005	1ZB046	(1,003,827)	(1,800,000)	-	(1,003,827)	7H; 7I
	Total	<u>\$ (22,003,827)</u>		<u>\$ -</u>	<u>\$ (22,003,827)</u>	

64. The Principal Balance Calculation for Account 1ZB032 demonstrates that between February 11, 1993 and December 11, 2008, \$32,350,000 was withdrawn from or transferred within BLMIS (\$27,850,000 withdrawn in cash and \$4,500,000 transferred into Account 1ZB046), which consisted of \$28,000,000 of principal and an additional \$4,350,000 of funds withdrawn in excess of principal, representing fictitious profits. The chart below demonstrates the total amount of fictitious profits withdrawn from Account 1ZB032 at different time periods prior to December 11, 2008. (See **Exhibit 7H.**)

BLMIS Account	Account Name	2-Year Fictitious Profits	6-Year Fictitious Profits	Post 1/1/2001 Fictitious Profits	Full History Fictitious Profits	Exhibit
1ZB032	MAYFAIR VENTURES C/O FRANK AVELLINO	\$ (2,500,000)	\$ (2,550,000)	\$ (3,550,000)	\$ (4,350,000)	7H

B. Description of Activity in Account 1ZB046 and the Transactions Impacting the Principal Balance Calculation

65. Account 1ZB046 was opened with BLMIS in February 1993. Throughout its account history, Account 1ZB046 had a total of 157 cash deposit and withdrawal transactions. In addition to these cash transactions, there were the following inter-account transfers into Account 1ZB046: (i) six inter-account transfers from Account 1ZB032; (ii) two inter-account transfers from Account 1J0049; and (iii) one inter-account transfer from Account 1ZB262. There were also the following inter-account transfers out of Account 1ZB046: (i) seven inter-account transfers into Account 1ZB262; (ii) four inter-account transfers into Account 1ZB509; (iii) four inter-account transfers into Account 1ZB510; and (iv) one inter-account transfer into Account 1ZA879.

66. The cash deposit and withdrawal transactions, as well as the inter-account transfers, all impacted the Principal Balance Calculation for Account 1ZB046. Each of these transactions was reflected on the Customer Statements between February 1993 and November 2008.

67. Thus, in order to perform the Principal Balance Calculation for Account 1ZB046, Accounts 1ZB032, 1ZB262 and 1J0049 were analyzed to determine the amount of principal available in those accounts that could be transferred into Account 1ZB046.

68. To determine the amount of principal available in Account 1J0049, six additional accounts, Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014 and 1ZB374, were analyzed because inter-account transfers from those accounts impacted the principal balance in Account 1J0049.

69. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Account 1ZB046.

70. **Exhibits 7A-7J** to this report provide detailed schedules for the Principal Balance Calculation for Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032, 1ZB046 and 1ZB262, respectively.

i) Summary of Activity in Account 101009 and the Inter-Account Transfer Into Account 101014

71. Account 101009 was opened with BLMIS prior to April of 1981.⁴³ As discussed in greater detail in the Principal Balance Calculation Report, March 31, 1981 was the earliest date for which the BLMIS records provide the necessary information reported on monthly Customer Statements to calculate the principal balance for all accounts opened prior to April of 1981.⁴⁴ As Account 101009 was opened prior to April of 1981, Account 101009 was granted an initial principal credit on April 1, 1981 equal to the account's reported ending cash balance and

⁴³ Account 101009 was known as Account 10101111 at this time. (See **MF00095618** for a copy of the March 1981 Customer Statement for Account 101009; see also **MF00082927**.)

⁴⁴ See Principal Balance Calculation Report at ¶¶20-22.

the historical cost of the securities reportedly held in the account as of March 31, 1981 on the Customer Statement.⁴⁵

72. Therefore, the Principal Balance Calculation granted Account 101009 an initial principal credit in the amount of \$120,463.⁴⁶ (See **Exhibit 7A** for the Detailed Schedule for the Principal Balance Calculation for Account 101009.)

73. Between April 1, 1981 and December 11, 2008, Account 101009 reflected a total of three cash withdrawals totaling \$95,000.

74. On August 3, 1983, as reflected on the Customer Statements, there was an inter-account transfer from Account 101009 into Account 101014 in the amount of \$78,370. However, because Account 101009 had only \$25,463 of principal available at the time of this inter-account transfer, Account 101014 was credited with \$25,463 of principal. The remaining balance of this reported inter-account transfer constituted fictitious profits. (See **Exhibit 7A**; see also **Exhibit 7B** for the Detailed Schedule for the Principal Balance Calculation for Account 101014.)

ii) Summary of Activity in Account 101014 and the Inter-Account Transfer Into Account 1J0018

75. Account 101014 was opened with BLMIS prior to April of 1981.⁴⁷ Because Account 101014 was opened prior to April of 1981, as discussed above, an initial principal credit was granted on April 1, 1981 equal to the account's reported ending cash balance and the historical cost of the securities reportedly held in the account as of March 31, 1981 on the Customer Statement.

76. Therefore, the Principal Balance Calculation granted Account 101014 an initial principal credit in the amount of \$85,196.⁴⁸ (See **Exhibit 7B**.)

⁴⁵ The BLMIS Customer Statements reported amounts related to securities purportedly held at historical cost values, as opposed to market values, and therefore the historical cost basis was used in the limited instances in which BLMIS accounts pre-dated April 1, 1981.

⁴⁶ The amount of principal credit granted to Account 101009 is calculated using the following formula: [New Balance] + [Value of Long Security Positions] - [Value of Short Security Positions]. Based on the March 1981 Customer Statement for Account 101009, the calculation is as follows: [\$125,562.53] + [\$119,991.00] - [\$125,090.74] = [\$120,462.79]. (See **MF00095618**.)

⁴⁷ Account 101014 was known as Account 10101210 at this time. (See **MF00095619** for a copy of the March 1981 Customer Statement for Account 101014; see also **MF00084621**.)

⁴⁸ The amount of principal credit granted to Account 101014 is calculated using the following formula: [New Balance] + [Value of Long Security Positions] - [Value of Short Security Positions]. Based on the March 1981

77. Subsequent to the initial principal credit, on August 3, 1983, as reflected on the Customer Statements, there was an inter-account transfer from Account 101009 into Account 101014 in the amount of \$78,370. However, as discussed above, Account 101014 was only credited with \$25,463 of principal. The remaining balance of this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7A** and **7B**.)

78. The initial principal credit and one inter-account transfer provided Account 101014 with a total of \$110,659 of principal.

79. Between April 1, 1981 and December 11, 2008, Account 101014 reflected a total of four cash withdrawals totaling \$115,589.

80. On May 9, 1985, as reflected on the Customer Statements, there was an inter-account transfer from Account 101014 into Account 1J0018 in the amount of \$128,495. However, due to the negative principal balance in Account 101014 at the time of this inter-account transfer, there was no principal available to be transferred into Account 1J0018. Therefore, this amount was not credited as principal into Account 1J0018 because this reported inter-account transfer constituted fictitious profits. (See **Exhibit 7B**; see also **Exhibit 7C** for the Detailed Schedule for the Principal Balance Calculation for Account 1J0018.)

iii) Summary of Activity in Account 1J0018 and the Inter-Account Transfers Into Accounts 1A0045 and 1J0019

81. Account 1J0018 was opened with BLMIS prior to April of 1981.⁴⁹ Because Account 1J0018 was opened prior to April of 1981, as discussed above, an initial principal credit was granted on April 1, 1981 equal to the account's reported ending cash balance and the historical cost of the securities reportedly held in the account as of March 31, 1981 on the Customer Statement.

82. Therefore, the Principal Balance Calculation granted Account 1J0018 an initial principal credit in the amount of \$215,000.⁵⁰ (See **Exhibit 7C**.)

Customer Statement for Account 101014, the calculation is as follows: [\$88,811.45] + [\$85,156.50] - [\$88,771.68] = [\$85,196.27]. (See **MF00095619**.)

⁴⁹ Account 1J0018 was known as Account 10100311 at this time. (See **MF00095614** for a copy of the March 1981 Customer Statement for Account 1J0018; see also **MF00091723**.)

⁵⁰ The amount of principal credit granted to Account 1J0018 is calculated using the following formula: [New Balance] + [Value of Long Security Positions] - [Value of Short Security Positions]. Based on the March 1981 Customer Statement for Account 1J0018, the calculation is as follows: [\$221,450.00] + [\$214,989.13] - [\$221,439.13] = [\$215,000.00]. (See **MF00095614**.)

83. Subsequent to the initial principal credit, there were three cash deposits via checks into Account 1J0018 in the aggregate amount of \$220,000, all representing principal.

84. On May 9, 1985, as reflected on the Customer Statements, there was an inter-account transfer from Account 101014 into Account 1J0018 in the amount of \$128,495. However, as discussed above, this amount was not credited as principal into Account 1J0018 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7B** and **7C**.)

85. The initial principal credit, three cash deposits, and one inter-account transfer provided Account 1J0018 with a total of \$435,000 of principal.

86. Between April 1, 1981 and December 11, 2008, Account 1J0018 reflected a total of 102 cash withdrawals totaling \$1,004,672.

87. On March 9, 1988 and January 4, 1993, as reflected on the Customer Statements, there were two inter-account transfers from Account 1J0018 into Accounts 1A0045 and 1J0019 in the aggregate amount of \$502,214: (i) \$50,000 into Account 1A0045 on March 9, 1988; and (ii) \$452,214 into Account 1J0019 on January 4, 1993. However, due to the negative principal balance in Account 1J0018 at the time of these inter-account transfers, there was no principal available to be transferred into Accounts 1A0045 and 1J0019. Therefore, these amounts were not credited as principal into Accounts 1A0045 and 1J0019 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 4I** and **7C**; see also **Exhibit 7D** for the Detailed Schedule for the Principal Balance Calculation for Account 1J0019.)

iv) Summary of Activity in Account 1J0019 and the Inter-Account Transfers Into Accounts 1A0045 and 1ZA014

88. Account 1J0019 was opened with BLMIS prior to April of 1981.⁵¹ Because Account 1J0019 was opened prior to April of 1981, as discussed above, an initial principal credit was granted on April 1, 1981 equal to the account's reported ending cash balance and the historical cost of the securities reportedly held in the account as of March 31, 1981 on the Customer Statement.

⁵¹ Account 1J0019 was known as Account 10101012 at this time. (See **MF00095617** for a copy of the March 1981 Customer Statement for Account 1J0019; see also **MF00091749**.)

89. Therefore, the Principal Balance Calculation granted Account 1J0019 an initial principal credit in the amount of \$300,000.⁵² (See **Exhibit 7D**.)

90. Subsequent to the initial principal credit, there were three additional cash deposits via checks into Account 1J0019 in the aggregate amount of \$213,124, all representing principal.

91. On January 4, 1993, as reflected on the Customer Statements, there was an inter-account transfer from Account 1J0018 into Account 1J0019 in the amount of \$452,214. However, as discussed above, this amount was not credited as principal into Account 1J0019 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7C and 7D**.)

92. The initial principal credit, three cash deposits, and one inter-account transfer provided Account 1J0019 with a total of \$513,124 of principal.

93. Between April 1, 1981 and December 11, 2008, Account 1J0019 reflected a total of 128 cash withdrawals⁵³ totaling \$1,651,527.

94. On March 29, 1988 and June 19, 1996, as reflected on the Customer Statements, there were two inter-account transfers from Account 1J0019 into Accounts 1A0045 and 1ZA014 in the aggregate amount of \$972,648: (i) \$50,000 into Account 1A0045 on March 29, 1988; and (ii) \$922,648 into Account 1ZA014 on June 19, 1996. However, due to the negative principal balance in Account 1J0019 at the time of these inter-account transfers, there was no principal available to be transferred into Accounts 1A0045 and 1ZA014. Therefore, these amounts were not credited as principal into Accounts 1A0045 and 1ZA014 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 4I and 7D**; see also **Exhibit 7E** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZA014.)

v) Summary of Activity in Account 1ZA014 and the Inter-Account Transfers Into Accounts 1ZB374 and 1J0049

95. On November 30, 1992, Account 1ZA014 was opened with a cash deposit via check in the amount of \$1,000,000, all representing principal.

⁵² The amount of principal credit granted to Account 1J0019 is calculated using the following formula: [New Balance] + [Value of Long Security Positions] - [Value of Short Security Positions]. Based on the March 1981 Customer Statement for Account 1J0019, the calculation is as follows: [\$312,749.18] + [\$299,978.25] - [\$312,727.43] = [\$300,000]. (See **MF00095617**.)

⁵³ These cash withdrawals exclude the line items on the Customer Statements related to a check for \$25,000 issued by BLMIS on January 5, 1983, which was cancelled on January 20, 1983. (See **Exhibit 7D**.)

96. Subsequent to this initial cash deposit, there were 14 additional cash deposits⁵⁴ via checks into Account 1ZA014 in the aggregate amount of \$1,000,000, all representing principal.

97. On June 19, 1996, as reflected on the Customer Statements, there was an inter-account transfer from Account 1J0019 into Account 1ZA014 in the amount of \$922,648. However, as discussed above, this amount was not credited as principal into Account 1ZA014 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7D** and **7E**.)

98. The 15 cash deposits and one inter-account transfer provided Account 1ZA014 with a total of \$2,000,000 of principal.

99. Between November 30, 1992 and December 11, 2008, Account 1ZA014 reflected a total of 28 cash withdrawals⁵⁵ totaling \$2,438,107.

100. On October 5, 1999 and May 18, 2000, as reflected on the Customer Statements, there were two inter-account transfers from Account 1ZA014 into Accounts 1ZB374 and 1J0049 in the aggregate amount of \$2,820,217: (i) \$2,817,358 into Account 1ZB374 on October 5, 1999; and, (ii) \$2,859 into Account 1J0049 on May 18, 2000. However, due to the negative principal balance in Account 1ZA014 at the time of these inter-account transfers, there was no principal available to be transferred into Accounts 1ZB374 and 1J0049. Therefore, these amounts were not credited as principal into Accounts 1ZB374 and 1J0049 because these reported inter-account transfers constituted fictitious profits. (See **Exhibit 7E**; see also **Exhibit 7F** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB374; **Exhibit 7G** for the Detailed Schedule for the Principal Balance Calculation for Account 1J0049.)

vi) Summary of Activity in Account 1ZB374 and the Inter-Account Transfer Into Account 1J0049

101. On October 5, 1999, as reflected on the Customer Statements, Account 1ZB374 was opened with an inter-account transfer from Account 1ZA014 in the amount of \$2,817,358. However, as discussed above, this amount was not credited as principal into Account 1ZB374

⁵⁴ These cash deposits exclude the line items on the Customer Statements related to a check in the amount of \$50,000 on March 26, 1998, which was returned on April 2, 1998. (See **Exhibit 7E**.)

⁵⁵ These cash withdrawals exclude the line items on the Customer Statements related to a check for \$50,658 issued by BLMIS on October 16, 1995, which was stopped on November 3, 1995. (See **Exhibit 7E**.)

because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7E and 7F.**)

102. Subsequent to this initial inter-account transfer, on June 21, 2000, as reflected on the Customer Statements, there was an inter-account transfer from Account 1ZB374 into Account 1J0049 in the amount of \$3,159,740. However, due to the zero principal balance in Account 1ZB374 at the time of this inter-account transfer, there was no principal available to be transferred into Account 1J0049. Therefore, this amount was not credited as principal into Account 1J0049 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7F and 7G.**)

vii) Summary of Activity in Account 1J0049 and the Inter-Account Transfers Into Account 1ZB046

103. On February 2, 2000, Account 1J0049 was opened with a cash deposit via check in the amount of \$2,000,000, all representing principal.

104. Subsequent to this initial cash deposit, on May 18, 2000 and June 21, 2000, as reflected on the Customer Statements, there were two inter-account transfers from Accounts 1ZA014 and 1ZB374 into Account 1J0049 in the aggregate amount of \$3,162,599: (i) \$2,859 from Account 1ZA014 on May 18, 2000; and (ii) \$3,159,740 from Account 1ZB374 on June 21, 2000. However, as discussed above, these amounts were not credited as principal into Account 1J0049 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7E-7G.**)

105. Between February 2, 2000 and December 11, 2008, Account 1J0049 reflected one cash withdrawal in the amount of \$300,000.

106. On May 3, 2001, as reflected on the Customer Statements, there was an inter-account transfer from Account 1J0049 into Account 1ZB046 in the amount of \$5,603,255. However, because Account 1J0049 had only \$1,700,000 of principal available at the time of this inter-account transfer, Account 1ZB046 was credited with \$1,700,000 of principal. The remaining balance of this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7G and 7I.**)

107. On July 25, 2001, as reflected on the Customer Statements, there was an additional inter-account transfer from Account 1J0049 into Account 1ZB046 in the amount of \$2,874. However, due to the zero principal balance in Account 1J0049 at the time of this inter-

account transfer, there was no principal available to be transferred into Account 1ZB046.

Therefore, this amount was not credited as principal into Account 1ZB046 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7G and 7I.**)

viii) Description of the Cash Deposits and Inter-Account Transfers Into Account 1ZB046

108. On February 26, 1993, there were three cash deposits via wires into Account 1ZB046 in the aggregate amount of \$1,740,000, all representing principal.

109. Subsequent to these initial cash deposits, there were 23 additional cash deposits via checks and wires into Account 1ZB046 in the aggregate amount of \$29,411,600, all representing principal.

110. On July 3, 1995 and May 3, 2001, as reflected on the Customer Statements, there were two inter-account transfers from Accounts 1ZB032 and 1J0049 into Account 1ZB046 in the aggregate amount of \$23,603,255: (i) \$18,000,000 from Account 1ZB032 on July 3, 1995; and (ii) \$5,603,255 from Account 1J0049 on May 3, 2001. However, as discussed above, Account 1ZB046 was only credited with \$4,500,000 and \$1,700,000 of principal, respectively. The remaining balance of these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7G-7I.**)

111. Between July 25, 2001 and March 1, 2005, as reflected on the Customer Statements, there were six inter-account transfers from Accounts 1J0049 and 1ZB032 into Account 1ZB046 in the aggregate amount of \$22,006,701. However, as discussed above and demonstrated in the chart below, these amounts were not credited as principal into Account 1ZB046 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7G-7I.**)

Date	BLMIS Transferor Account	Transfer Amount Reported on Customer Statements	Transferor's Principal Balance at Time of the Transfer	Principal Transferred	Fictitious Profits	Exhibits
7/25/2001	1J0049	\$ 2,874	\$ -	\$ -	\$ 2,874	7G; 7I
4/1/2002	1ZB032	3,000,000	(1,800,000)	-	3,000,000	7H; 7I
8/14/2002	1ZB032	4,000,000	(1,800,000)	-	4,000,000	7H; 7I
9/3/2002	1ZB032	4,000,000	(1,800,000)	-	4,000,000	7H; 7I
5/26/2004	1ZB032	10,000,000	(1,800,000)	-	10,000,000	7H; 7I
3/1/2005	1ZB032	1,003,827	(1,800,000)	-	1,003,827	7H; 7I
	Total	<u>\$ 22,006,701</u>		<u>\$ -</u>	<u>\$ 22,006,701</u>	

112. Additionally, on March 3, 2004, as reflected on the Customer Statements, there was an inter-account transfer from Account 1ZB262 into Account 1ZB046 in the amount of \$6,000,000. As of the date of this inter-account transfer, Account 1ZB262 had sufficient principal to transfer the full amount into Account 1ZB046. Therefore, \$6,000,000 was credited as principal into Account 1ZB046. (See **Exhibit 7I**; see also **Exhibit 7J** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB262.)

113. In sum, the 26 cash deposits and nine inter-account transfers provided Account 1ZB046 with a total of \$43,351,600 of principal. (See **Exhibit 3A**.)

ix) Description of the Cash Withdrawals and Inter-Account Transfers Out of Account 1ZB046

114. Between February 26, 1993 and December 11, 2008, Account 1ZB046 reflected a total of 131 cash withdrawals totaling \$101,603,000.

115. Between April 9, 1998 and February 21, 2008, as reflected on the Customer Statements, there were 16 inter-account transfers⁵⁶ from Account 1ZB046 into Accounts 1ZB262, 1ZB509, 1ZB510 and 1ZA879 in the aggregate amount of \$77,763,276. However, as demonstrated in the chart below, due to the negative principal balance in Account 1ZB046 at the time of these inter-account transfers, there was no principal available to be transferred into Accounts 1ZB262, 1ZB509, 1ZB510 and 1ZA879. Therefore, these amounts were not credited as principal into Accounts 1ZB262, 1ZB509, 1ZB510 and 1ZA879 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7I** and **7J**; see also **Exhibit 7K** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZA879; **Exhibit 7L** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB509; and **Exhibit 7M** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB510.)

⁵⁶ These inter-account transfers exclude the line items on the Customer Statements related to an inter-account transfer from Account 1ZB046 into Account 1ZB262 in the amount of \$200,000 on December 6, 1999, which was cancelled on December 7, 1999.

Date	BLMIS Transferee Account	Transfer Amount Reported on Customer Statements	Transferor's Principal Balance at Time of the Transfer	Principal Transferred	Fictitious Profits	Exhibits
4/9/1998	1ZB262	\$ (200,000)	\$ (8,132,000)	\$ -	\$ (200,000)	7I; 7J
12/1/1999	1ZB262	(200,000)	(17,532,000)	-	(200,000)	7I; 7J
8/26/2002	1ZB262	(350,000)	(33,601,400)	-	(350,000)	7I; 7J
2/3/2003	1ZB262	(230,000)	(39,701,400)	-	(230,000)	7I; 7J
2/26/2003	1ZB262	(700,000)	(39,701,400)	-	(700,000)	7I; 7J
6/30/2004	1ZB509	(5,000,000)	(48,551,400)	-	(5,000,000)	7I; 7L
6/30/2004	1ZB510	(5,000,000)	(48,551,400)	-	(5,000,000)	7I; 7M
12/31/2004	1ZB509	(13,970,000)	(47,951,400)	-	(13,970,000)	7I; 7L
12/31/2004	1ZB510	(35,680,000)	(47,951,400)	-	(35,680,000)	7I; 7M
3/1/2005	1ZB509	(2,089,141)	(48,451,400)	-	(2,089,141)	7I; 7L
3/1/2005	1ZB510	(4,114,210)	(48,451,400)	-	(4,114,210)	7I; 7M
2/28/2006	1ZB509	(437,147)	(53,551,400)	-	(437,147)	7I; 7L
2/28/2006	1ZB510	(1,092,778)	(53,551,400)	-	(1,092,778)	7I; 7M
3/29/2007	1ZB262	(8,185,000)	(56,751,400)	-	(8,185,000)	7I; 7J
1/18/2008	1ZB262	(215,000)	(57,751,400)	-	(215,000)	7I; 7J
2/21/2008	1ZA879	(300,000)	(57,751,400)	-	(300,000)	7I; 7K
	Total	<u>\$ (77,763,276)</u>		<u>\$ -</u>	<u>\$ (77,763,276)</u>	

116. The Principal Balance Calculation for Account 1ZB046 demonstrates that between February 26, 1993 and December 11, 2008, \$101,603,000 was withdrawn from BLMIS, which consisted of \$43,351,600 of principal and an additional \$58,251,400 of funds withdrawn in excess of principal, representing fictitious profits. The chart below demonstrates the total amount of fictitious profits withdrawn from Account 1ZB046 at different time periods prior to December 11, 2008. (See **Exhibit 7I**.)

BLMIS Account	Account Name	2-Year Fictitious Profits	6-Year Fictitious Profits	Post 1/1/2001 Fictitious Profits	Full History Fictitious Profits	Exhibit
1ZB046	GROSVENOR PARTNERS LTD C/O FRANK AVELLINO	\$ (2,500,000)	\$ (28,650,000)	\$ (45,500,000)	\$ (58,251,400)	7I

C. Description of Activity in Account 1ZB262 and the Transactions Impacting the Principal Balance Calculation

117. Account 1ZB262 was opened with BLMIS in August 1995. Throughout its account history, Account 1ZB262 had a total of 29 cash deposit and withdrawal transactions. In addition to these cash transactions, there were the following inter-account transfers: (i) seven

inter-account transfers from Account 1ZB046 into Account 1ZB262; and (ii) one inter-account transfer from Account 1ZB262 into Account 1ZB046.

118. The cash deposit and withdrawal transactions, as well as the inter-account transfers, all impacted the Principal Balance Calculation for Account 1ZB262. Each of these transactions was reflected on the Customer Statements between August 1995 and November 2008.

119. Thus, in order to perform the Principal Balance Calculation for Account 1ZB262, Account 1ZB046 was analyzed to determine the amount of principal available in that account that could be transferred into Account 1ZB262.

120. To determine the amount of principal available in Account 1ZB046, eight additional accounts, Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049 and 1ZB032, were analyzed because inter-account transfers from those accounts impacted the principal balance in Account 1ZB046.

121. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Account 1ZB262.

122. **Exhibits 7A-7J** to this report provide detailed schedules for the Principal Balance Calculation for Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032, 1ZB046 and 1ZB262, respectively.

i) Description of the Cash Deposits and Inter-Account Transfers Into Account 1ZB262

123. On August 22, 1995, there was a cash deposit⁵⁷ via check into Account 1ZB262 in the amount of \$250,000, all representing principal.

124. Subsequent to this initial cash deposit, there were 10 additional cash deposits via checks and wire into Account 1ZB262 in the aggregate amount of \$40,495,000, all representing principal.

⁵⁷ These cash deposits exclude the line items on the Customer Statement related to a check in the amount of \$250,000 on August 11, 1995, which was returned on August 22, 1995. (See **Exhibit 7J**.)

125. Between April 9, 1998 and January 18, 2008, as reflected on the Customer Statements, there were seven inter-account transfers⁵⁸ from Account 1ZB046 into Account 1ZB262 in the aggregate amount of \$10,080,000. However, as discussed above and demonstrated in the chart below, these amounts were not credited as principal into Account 1ZB262 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7I and 7J.**)

Date	BLMIS Transferor Account	Transfer Amount Reported on Customer Statements	Transferor's Principal Balance at Time of the Transfer	Principal Transferred	Fictitious Profits	Exhibits
4/9/1998	1ZB046	\$ 200,000	\$ (8,132,000)	\$ -	\$ 200,000	7I; 7J
12/1/1999	1ZB046	200,000	(17,532,000)	-	200,000	7I; 7J
8/26/2002	1ZB046	350,000	(33,601,400)	-	350,000	7I; 7J
2/3/2003	1ZB046	230,000	(39,701,400)	-	230,000	7I; 7J
2/26/2003	1ZB046	700,000	(39,701,400)	-	700,000	7I; 7J
3/29/2007	1ZB046	8,185,000	(56,751,400)	-	8,185,000	7I; 7J
1/18/2008	1ZB046	215,000	(57,751,400)	-	215,000	7I; 7J
	Total	<u>\$ 10,080,000</u>		<u>\$ -</u>	<u>\$ 10,080,000</u>	

126. In sum, the 11 cash deposits and seven inter-account transfers provided Account 1ZB262 with a total of \$40,745,000 of principal. (See **Exhibit 3A.**)

ii) Description of the Cash Withdrawals and Inter-Account Transfer Out of Account 1ZB262

127. Between August 22, 1995 and December 11, 2008, Account 1ZB262 reflected a total of 18 cash withdrawals⁵⁹ totaling \$23,820,000.

128. On March 3, 2004, as reflected on the Customer Statements, there was an inter-account transfer from Account 1ZB262 into Account 1ZB046 in the amount of \$6,000,000. As discussed above, Account 1ZB262 had sufficient principal as of the date of this inter-account

⁵⁸ These inter-account transfers exclude the line items on the Customer Statements related to an inter-account transfer from Account 1ZB046 into Account 1ZB262 in the amount of \$200,000 on December 6, 1999, which was cancelled on December 7, 1999. (See **Exhibits 7I and 7J.**)

⁵⁹ These cash withdrawals exclude the line items on the Customer Statements related to two checks: (i) a check for \$75,000 issued by BLMIS on May 10, 2001, which was stopped on May 29, 2001; and (ii) a check for \$350,000 issued by BLMIS on August 29, 2002, which was returned on September 18, 2002. (See **Exhibit 7J.**)

transfer to transfer the full amount into Account 1ZB046. Therefore, \$6,000,000 was credited as principal into Account 1ZB046. (See **Exhibits 7I and 7J.**)

129. The Principal Balance Calculation for Account 1ZB262 demonstrates that between August 22, 1995 and December 11, 2008, of the \$40,745,000 of principal available in the account, \$29,820,000 was withdrawn from or transferred within BLMIS (\$23,820,000 withdrawn in cash and \$6,000,000 transferred into Account 1ZB046). As a result, the remaining principal balance of Account 1ZB262, as of December 11, 2008, was \$10,925,000. There were no fictitious profits withdrawn from Account 1ZB262 prior to December 11, 2008. (See **Exhibit 7J.**)

D. Description of Activity in Account 1ZA879 and the Transactions Impacting the Principal Balance Calculation

130. Account 1ZA879 was opened with BLMIS in January 1993. Throughout its account history, Account 1ZA879 had a total of 45 cash deposit and withdrawal transactions. In addition to these cash transactions, there was one inter-account transfer from Account 1ZB046 into Account 1ZA879.

131. The cash deposit and withdrawal transactions, as well as the inter-account transfer, all impacted the Principal Balance Calculation for Account 1ZA879. Each of these transactions was reflected on the Customer Statements between January 1993 and November 2008.

132. Thus, in order to perform the Principal Balance Calculation for Accounts 1ZA879 and 1ZB046 was analyzed to determine the amount of principal available in that account that could be transferred into Account 1ZA879.

133. To determine the amount of principal available in Account 1ZB046, nine additional accounts, Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032 and 1ZB262, were analyzed because inter-account transfers from those accounts impacted the principal balance in Account 1ZB046.

134. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Account 1ZA879.

135. **Exhibits 7A-7K** to this report provide detailed schedules for the Principal Balance Calculation for Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032, 1ZB046, 1ZB262 and 1ZA879, respectively.

i) Description of the Cash Deposits and Inter-Account Transfer Into Account 1ZA879

136. On January 4, 1993, Account 1ZA879 was opened with a cash deposit via check in the amount of \$1,375,000, all representing principal.

137. Subsequent to this initial cash deposit, there were 14 additional cash deposits via checks into Account 1ZA879 in the aggregate amount of \$4,575,000, all representing principal.

138. On February 21, 2008, as reflected on the Customer Statements, there was an inter-account transfer from Account 1ZB046 into Account 1ZA879 in the amount of \$300,000. However, as discussed above, this amount was not credited as principal into Account 1ZA879 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7I and 7K.**)

139. In sum, the 15 cash deposits and one inter-account transfer provided Account 1ZA879 with a total of \$5,950,000 of principal. (See **Exhibit 3A.**)

ii) Description of the Cash Withdrawals Out of Account 1ZA879

140. Between January 4, 1993 and December 11, 2008, Account 1ZA879 reflected a total of 30 cash withdrawals totaling \$5,745,000.

141. The Principal Balance Calculation for Account 1ZA879 demonstrates that between January 4, 1993 and December 11, 2008, of the \$5,950,000 of principal available in the account, \$5,745,000 was withdrawn in cash. As a result, the remaining principal balance of Account 1ZA879, as of December 11, 2008, was \$205,000. There were no fictitious profits withdrawn from Account 1ZA879 prior to December 11, 2008. (See **Exhibit 7K.**)

E. Description of Activity in Account 1ZB509 and the Transactions Impacting the Principal Balance Calculation

142. Account 1ZB509 was opened with BLMIS in June 2004. Throughout its account history, Account 1ZB509 had a total of 12 cash withdrawal transactions. In addition to these

cash withdrawal transactions, there were four inter-account transfers from Account 1ZB046 into Account 1ZB509.

143. The cash withdrawal transactions, as well as the inter-account transfers, all impacted the Principal Balance Calculation for Account 1ZB509. Each of these transactions was reflected on the Customer Statements between June 2004 and November 2008.

144. Thus, in order to perform the Principal Balance Calculation for Account 1ZB509, Account 1ZB046 was analyzed to determine the amount of principal available in that account that could be transferred into Account 1ZB509.

145. To determine the amount of principal available in Account 1ZB046, nine additional accounts, Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032 and 1ZB262, were analyzed because inter-account transfers from those accounts impacted the principal balance in Account 1ZB046.

146. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Account 1ZB509.

147. **Exhibits 7A-7J** and **7L** to this report provide detailed schedules for the Principal Balance Calculation for Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032, 1ZB046, 1ZB262 and 1ZB509, respectively.

i) Description of the Inter-Account Transfers Into Account 1ZB509

148. On June 30, 2004, as reflected on the Customer Statements, Account 1ZB509 was opened with an inter-account transfer from Account 1ZB046 in the amount of \$5,000,000. However, as discussed above, this amount was not credited as principal into Account 1ZB509 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7I** and **7L**.)

149. Subsequent to this initial inter-account transfer, between December 31, 2004 and February 28, 2006, as reflected on the Customer Statements, there were three additional inter-account transfers from Account 1ZB046 into Account 1ZB509 in the aggregate amount of \$16,496,288: (i) \$13,970,000 on December 31, 2004; (ii) \$2,089,141 on March 1, 2005; and (iii) \$437,147 on February 28, 2006. However, as discussed above, these amounts were not credited

as principal into Account 1ZB509 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 3A, 7I and 7L.**)

ii) Description of the Cash Withdrawals Out of Account 1ZB509

150. Between June 30, 2004 and December 11, 2008, Account 1ZB509 reflected a total of 12 cash withdrawals totaling \$7,000,000.

151. The Principal Balance Calculation for Account 1ZB509 demonstrates that between June 30, 2004 and December 11, 2008, \$7,000,000 was withdrawn from BLMIS, which consisted entirely of funds withdrawn in excess of principal, representing fictitious profits. The chart below demonstrates the total amount of fictitious profits withdrawn from Account 1ZB509 at different time periods prior to December 11, 2008. (See **Exhibit 7L.**)

BLMIS Account	Account Name	2-Year Fictitious Profits	6-Year Fictitious Profits	Post 1/1/2001 Fictitious Profits	Full History Fictitious Profits	Exhibit
1ZB509	ASTER ASSOCIATES FRANK AVELLINO, NANCY CARROLL AVELLINO GENERAL PARTNERS	\$ (3,500,000)	\$ (7,000,000)	\$ (7,000,000)	\$ (7,000,000)	7L

F. Description of Activity in Account 1ZB510 and the Transactions Impacting the Principal Balance Calculation

152. Account 1ZB510 was opened with BLMIS in June 2004. Throughout its account history, Account 1ZB510 had a total of 23 cash deposit and withdrawal transactions. In addition to these cash transactions, there were four inter-account transfers from Account 1ZB046 into Account 1ZB510.

153. The cash deposit and withdrawal transactions, as well as the inter-account transfers, all impacted the Principal Balance Calculation for Account 1ZB510. Each of these transactions was reflected on the Customer Statements between June 2004 and November 2008.

154. Thus, in order to perform the Principal Balance Calculation for Account 1ZB510, Account 1ZB046 was analyzed to determine the amount of principal available in that account that could be transferred into Account 1ZB510.

155. To determine the amount of principal available in Account 1ZB046, nine additional accounts, Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032 and 1ZB262, were analyzed because inter-account transfers from those accounts impacted the principal balance in Account 1ZB046.

156. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Account 1ZB510.

157. **Exhibits 7A-7J** and **7M** to this report provide detailed schedules for the Principal Balance Calculation for Accounts 101009, 101014, 1J0018, 1J0019, 1ZA014, 1ZB374, 1J0049, 1ZB032, 1ZB046, 1ZB262 and 1ZB510, respectively.

i) Description of the Inter-Account Transfers and Cash Deposit Into Account 1ZB510

158. On June 30, 2004, as reflected on the Customer Statements, Account 1ZB510 was opened with an inter-account transfer from Account 1ZB046 in the amount of \$5,000,000. However, as discussed above, this amount was not credited as principal into Account 1ZB510 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 7I** and **7M**.)

159. Subsequent to this initial inter-account transfer, between December 31, 2004 and February 28, 2006, as reflected on the Customer Statements, there were three additional inter-account transfers from Account 1ZB046 into Account 1ZB510 in the aggregate amount of \$40,886,988: (i) \$35,680,000 on December 31, 2004; (ii) \$4,114,210 on March 1, 2005; and (iii) \$1,092,778 on February 28, 2006. However, as discussed above, these amounts were not credited as principal into Account 1ZB510 because these reported inter-account transfers constituted fictitious profits. (See **Exhibits 7I** and **7M**.)

160. Additionally, on July 29, 2008, there was a cash deposit via wire into Account 1ZB510 in the amount of \$1,000,000, all representing principal. (See **Exhibit 3A**.)

ii) Description of the Cash Withdrawals Out of Account 1ZB510

161. Between June 30, 2004 and December 11, 2008, Account 1ZB510 reflected a total of 22 cash withdrawals⁶⁰ totaling \$18,450,000.

162. The Principal Balance Calculation for Account 1ZB510 demonstrates that between June 30, 2004 and December 11, 2008, \$18,450,000 was withdrawn from BLMIS,

⁶⁰ These cash withdrawals exclude the line items on the Customer Statement related to a check for \$400,000 issued by BLMIS on August 25, 2008, which was stopped on August 27, 2008. (See **Exhibit 7M**.)

which consisted of \$1,000,000 of principal and an additional \$17,450,000 of funds withdrawn in excess of principal, representing fictitious profits. The chart below demonstrates the total amount of fictitious profits withdrawn from Account 1ZB510 at different time periods prior to December 11, 2008. (See **Exhibit 7M**.)

BLMIS Account	Account Name	2-Year Fictitious Profits	6-Year Fictitious Profits	Post 1/1/2001 Fictitious Profits	Full History Fictitious Profits	Exhibit
1ZB510	ST JAMES ASSOCIATES MICHAEL BIENES, DIANE BIENES GENERAL PARTNERS	\$ (8,700,000)	\$ (17,450,000)	\$ (17,450,000)	\$ (17,450,000)	7M

G. Description of Activity in Account 1ZB249 and the Transactions Impacting the Principal Balance Calculation

163. Account 1ZB249 was opened with BLMIS in January 1995. Throughout its account history, Account 1ZB249 had one cash deposit transaction.

164. The cash deposit transaction impacted the Principal Balance Calculation for Account 1ZB249. This transaction was reflected on the Customer Statements between January 1995 and November 2008.

165. **Exhibit 3B** to this report (Summary Schedule of Cash and Principal Activity in Account 1ZB249) provides a summary of the activity in Account 1ZB249.

166. **Exhibit 8** to this report provides the detailed schedule for the Principal Balance Calculation for Account 1ZB249.

i) Description of the Cash Deposit Into Account 1ZB249

167. On January 27, 1995, Account 1ZB249 was opened with a cash deposit via check in the amount of \$2,742,892, all representing principal.

168. The Principal Balance Calculation for Account 1ZB249 demonstrates that between January 27, 1995 and December 11, 2008, of the \$2,742,892 of principal available in the account, \$0 was withdrawn. As a result, the remaining principal balance of Account 1ZB249, as of December 11, 2008, was \$2,742,892. There were no fictitious profits withdrawn from Account 1ZB249 prior to December 11, 2008. (See **Exhibit 8** for the Detailed Schedule for the Principal Balance Calculation for Account 1ZB249.)

VI. SIGNATURE AND RIGHT TO MODIFY

169. This report and the exhibits contained herein present my findings and the bases thereof. To the extent that any additional information is produced by any party, I reserve the right to incorporate such additional information into my report or to modify my report as necessary.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Matthew B. Greenblatt", is written over a horizontal line.

Matthew B. Greenblatt, CPA/CFF, CFE
Senior Managing Director
FTI Consulting, Inc.

Dated: June 5, 2020

VII. LIST OF EXHIBITS

Exhibit 1 – Curriculum Vitae and Testimony of Matthew B. Greenblatt

Exhibit 2 – Documents Considered

Exhibit 3A – Summary Schedule of Cash and Principal Activity in Accounts 1ZB032, 1ZB046, 1ZB262, 1ZA879, 1ZB509 and 1ZB510

Exhibit 3B – Summary Schedule of Cash and Principal Activity in Account 1ZB249

Exhibit 4A – Detailed Schedule for the Principal Balance Calculation for Account 1R0030

Exhibit 4B – Detailed Schedule for the Principal Balance Calculation for Account 101909

Exhibit 4C – Detailed Schedule for the Principal Balance Calculation for Account 101908

Exhibit 4D – Detailed Schedule for the Principal Balance Calculation for Account 1H0023

Exhibit 4E – Detailed Schedule for the Principal Balance Calculation for Account 10013613

Exhibit 4F – Detailed Schedule for the Principal Balance Calculation for Account 100124

Exhibit 4G – Detailed Schedule for the Principal Balance Calculation for Account 1H0021

Exhibit 4H – Detailed Schedule for the Principal Balance Calculation for Account 10192318

Exhibit 4I – Detailed Schedule for the Principal Balance Calculation for Account 1A0045

Exhibit 4J – Detailed Schedule for the Principal Balance Calculation for Account 1A0047

Exhibit 4K – Detailed Schedule for the Principal Balance Calculation for Account 1A0048

Exhibit 4L – Detailed Schedule for the Principal Balance Calculation for Account 100127

Exhibit 4M– Detailed Schedule for the Principal Balance Calculation for Account 100126

Exhibit 4N – Detailed Schedule for the Principal Balance Calculation for Account 1A0051

Exhibit 4O – Detailed Schedule for the Principal Balance Calculation for Account 1A0050

Exhibit 4P – Detailed Schedule for the Principal Balance Calculation for Account 1A0049

Exhibit 4Q – Detailed Schedule for the Principal Balance Calculation for Account 1A0053

Exhibit 5 – Detailed Schedule for the Principal Balance Calculation for Account 1A0046

Exhibit 6 – Detailed Schedule for the Principal Balance Calculation for Account 1B0018

Exhibit 7A – Detailed Schedule for the Principal Balance Calculation for Account 101009

Exhibit 7B – Detailed Schedule for the Principal Balance Calculation for Account 101014

Exhibit 7C – Detailed Schedule for the Principal Balance Calculation for Account 1J0018

Exhibit 7D – Detailed Schedule for the Principal Balance Calculation for Account 1J0019

Exhibit 7E – Detailed Schedule for the Principal Balance Calculation for Account 1ZA014

Exhibit 7F – Detailed Schedule for the Principal Balance Calculation for Account 1ZB374

Exhibit 7G – Detailed Schedule for the Principal Balance Calculation for Account 1J0049

Exhibit 7H – Detailed Schedule for the Principal Balance Calculation for Account 1ZB032

Exhibit 7I – Detailed Schedule for the Principal Balance Calculation for Account 1ZB046

Exhibit 7J – Detailed Schedule for the Principal Balance Calculation for Account 1ZB262

Exhibit 7K – Detailed Schedule for the Principal Balance Calculation for Account 1ZA879

Exhibit 7L – Detailed Schedule for the Principal Balance Calculation for Account 1ZB509

Exhibit 7M– Detailed Schedule for the Principal Balance Calculation for Account 1ZB510

Exhibit 8 – Detailed Schedule for the Principal Balance Calculation for Account 1ZB249